

Facing the Challenges of Building Loyalty and Retention: The New Strategic Imperative

SAS and Loyalty 360 Research Paper

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The New Customer Sovereignty

If the latest economic downturn has taught marketers anything, it's that we need to keep our friends close and our customers closer. During a time of tight purse strings in both business and consumer spending, the battle for wallet share has never been more intense. Faced with the high cost of new customer acquisition and constrained marketing budgets, businesses are looking to improve their bottom line by increasing focus on their most valuable asset – their customers. Loyalty and retention programs designed to strengthen the relationship between customer and business are now a staple in the marketing mix.

Even though these programs are pervasive across all types of businesses, marketers are now challenged with new customer dynamics. The global recession and the now-pervasive options available through social media and online channels have combined to usher in a new customer sovereignty, where frugal buyers can find, compare and evaluate purchases in a matter of minutes. What's more, social media has given the customer significant power to influence the purchase behavior of others, giving a whole new meaning to the adage "the customer is king."

Customers are more fickle these days. Their expectations are greater. They are easily wooed by the promise of savings and getting more for less. Brand loyalty is certainly not what it used to be.

Loyalty 360, in partnership with SAS, set out to examine current trends in customer and loyalty programs. In an online survey conducted from November to December 2011, more than 150 customer loyalty and retention executives in both B2B and B2C companies from a cross section of industries shared their insights and experiences. The study sought to understand how businesses are addressing their customer loyalty and retention efforts in the wake of changing market and customer dynamics, and to identify the keys to effective loyalty and retention efforts.

Loyalty as the New Strategic Imperative

It's no revelation that most established organizations rely heavily on their current customer base for new sales. According to our survey, an average of 68% of new business comes from current customers. Companies have long counted on revenue from repeat purchasers, while seeking to entice those customers to spend more or buy more frequently. Cross-selling and up-selling are not new concepts. But with customer expectations at all-time highs and brand loyalty at risk from competitive and market pressures, businesses must devise new strategies to keep their valuable customers coming back.

Many companies are now putting increased focus on their loyalty and retention programs. In fact, two-thirds of the participants in our survey have a department or functional area dedicated to customer loyalty and retention, with an additional 13% planning to add one. Since the cost of acquiring a new customer is estimated at 5 to 10 times what it costs to maintain a current one, the nurturing of loyal customers is not only becoming a high priority, it is quickly becoming a strategic imperative.

Do you have a department or function whose primary focus is on customer retention and loyalty?

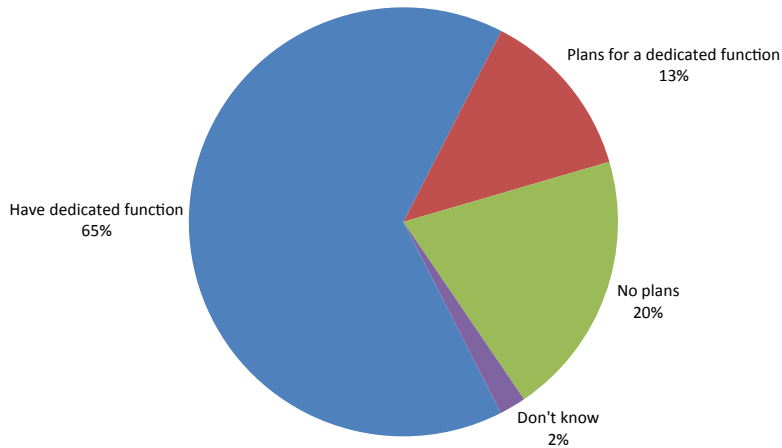


Figure 1

Improving the bottom line in the current economic climate means rethinking customer strategy. In addition to selling to new customers, businesses must continue to focus on the value they provide to their customers in order to maintain a competitive advantage. Effective retention and loyalty strategies are not merely about keeping customers at all costs. The conversation is now about developing loyalty among the most valuable customers. Research shows that loyal customers spend more, become brand advocates and are much less likely to succumb to the overtures of competitors.¹ Hence, many organizations are focusing in this strategic initiative at the top – in fact, over a third of the participants in our survey report that their loyalty and retention functions report to the C-level.

What functional area in the company does the customer retention and loyalty department report to?

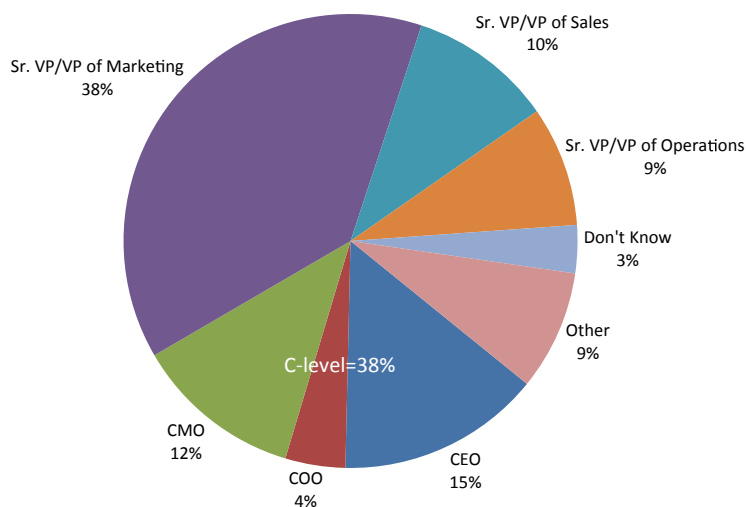


Figure 2

¹ Rauyruen, P. and Miller, K. "Relationship quality as a predictor of B2B customer loyalty," *Journal of Business Research*, January 2007.

From CMO to CLO

Marketing is also playing an increased role in the loyalty equation. CMOs, concerned over diminishing brand loyalty, are adding retention and loyalty strategy to their agenda. In half of the companies in our survey, the customer loyalty and retention function reports to a marketing executive. Many chief marketing officers are also moving into the role of chief loyalty officer.

It makes eminent sense to align the responsibilities of both attracting and retaining customers under one function. Effective marketing strategy includes market segmentation and target marketing (i.e., identifying and attracting the customers best served by an organization's offerings). Loyalty and retention strategies should be a natural extension of marketing strategy.

It follows, too, that the customer lifecycle or voice of the customer is a component of marketing strategy. Surprisingly, though, only half of our survey respondents reported that they have a formally defined customer lifecycle or voice of the customer program. Also interesting is that among those respondents who have a defined customer lifecycle, the biggest percentage (40%) believe that lifecycle begins after the sale. These companies are missing an opportunity to begin planting the seeds of loyalty earlier in the buy cycle while customers are still considering their purchase options.

“The fact that only half of the survey respondents have a formally defined lifecycle or voice of the customer approach is alarming. When a brand is effectively listening to and engaging their community, there is a realization that individuals have different and dynamic expectations of that brand. Loyalty 360 believes in a concept of ‘expectation matching’ – the belief that along the continuum of the individual ‘engagement’ with that brand, the requirements and expectations will vary dramatically. Brands need to be able to understand the dynamic nature of the expectations of the individual and realize that a true ‘voice of the customer’ dialogue can help to make sure they ‘match’ or exceed said expectations in a manner that leads to true brand loyalty.”

Mark Johnson
President and CEO, Loyalty 360

At what point does your customer life cycle or voice of customer program begin?

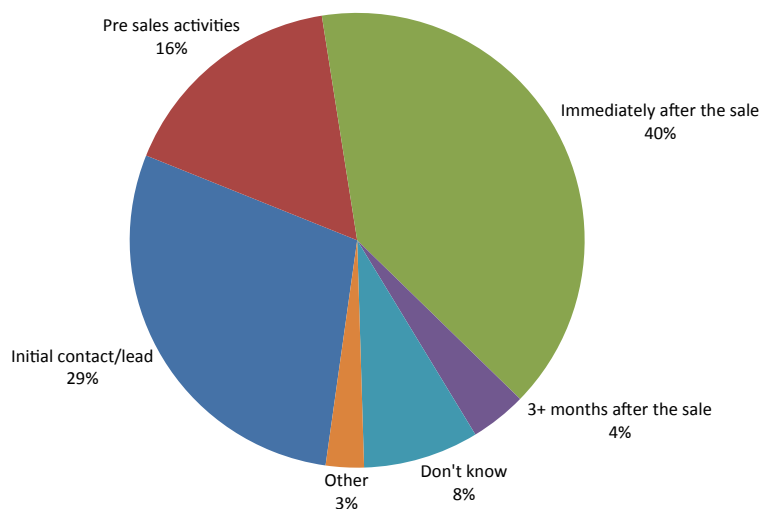


Figure 3

Digitizing the Customer Engagement

As customer dynamics change and technology pervades communications, companies are moving away from traditional means of engaging customers and toward digital forms of listening and responding. Not surprisingly, email is the predominant form of communication, both in listening (84%) and responding (88%) to customers, according to survey respondents. And while surveys are still a key method of obtaining customer input, social media has become equally important and is actually the second most frequent method companies use to respond to customers. The traditional call center, though alive and well, is no longer the lifeline to the customer.

The shift to digital media to listen and respond to customers presents businesses with vast opportunities as well as challenges in building loyalty. Social media, in particular, offers businesses a method to be part of the conversation rather than pushing one-way communication. On the other hand, many businesses are flying without a cohesive social media plan, and the rush to join the conversation could end up creating brand confusion.

Digital media and digital marketing have helped us better understand our customers. Businesses now have access to more information than ever about customer characteristics, behavior and preferences. This information can be used to develop personalized, targeted marketing programs. However, the sheer quantity of information about customers can be daunting. One major challenge in having so much information is reconciling the differences across sources to get an accurate picture of the customer. The next obstacle is having the tools and skills necessary to make sense of it. Companies need to be able to manage and understand the information they have and use it to create unique, meaningful experiences for their customers.

Which channels do you use to listen/respond to your customers?

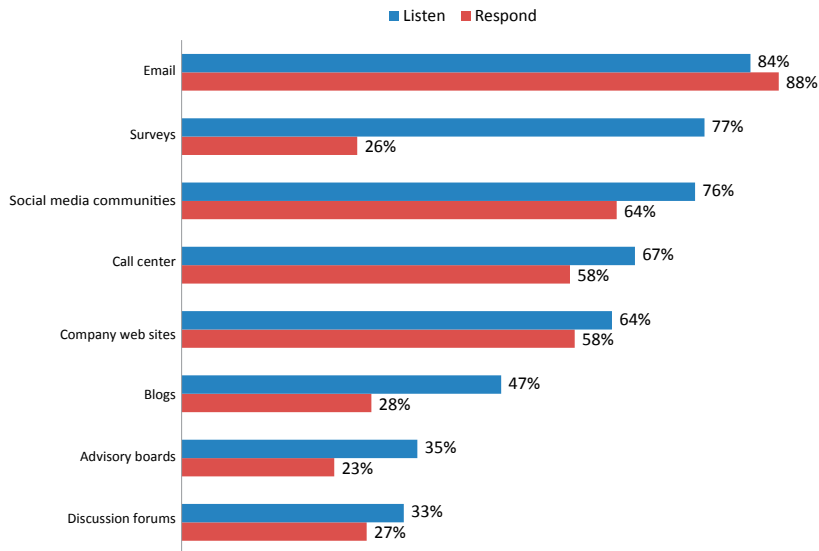


Figure 4

Money over Matter

Hands down, the number one priority of customer loyalty and retention programs among survey respondents is to get customers to spend more (47%). Improving churn (19%) and developing customers into brand evangelists (16%) are a distant second and third. But are businesses focusing on the right thing by making it all about the money up front?

Which of the following best describes the primary objective of your loyalty or retention program?

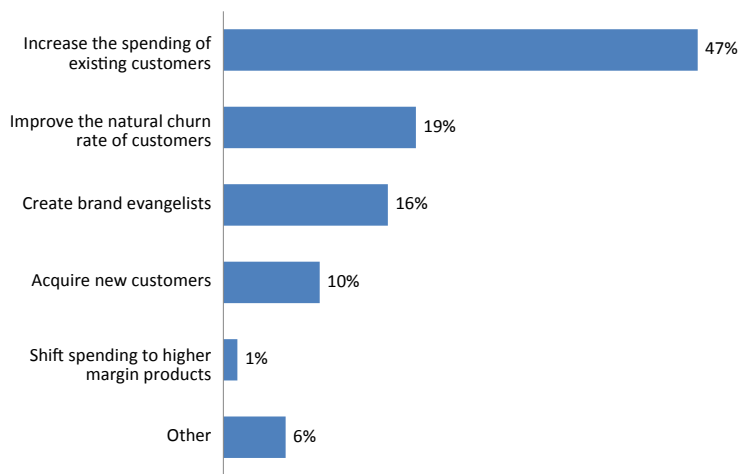


Figure 5

In the B2C market, many businesses use customer “loyalty” programs, often synonymous with rewards programs, as the flagship component of their loyalty strategy. There are currently an estimated 2 billion loyalty memberships² in the US alone, and the average number of memberships per household is 18. These programs are ubiquitous – offered by businesses ranging from the local sandwich shop to international hotel chains.

But a laminated card does not necessarily translate into a loyal customer. In fact, recent research by Forrester suggests that these loyalty cards have lost their luster over the past few years.³ In addition, a CMO Council study finds that over half of the members of loyalty programs are considering defecting because these companies bombard them with spam and irrelevant offers.⁴ It seems that B2C companies may have overplayed the “loyalty” card. Instead of seeking first to turn customers into brand evangelists, their attempts to get customers to spend more might have failed to reach customers in a way that matters.

Indeed, our research seems to bear this out. The survey indicates that many companies are not getting the desired results from their customer loyalty and retention programs. We find that fewer than one in four (24%) rate their loyalty and retention efforts as “very effective,” while an additional 44% deem their programs to be “somewhat effective.” Clearly, businesses are struggling to find the right formula to optimize their loyalty programs.

Overall, how effective has your customer loyalty/retention program been over the last 12 months?

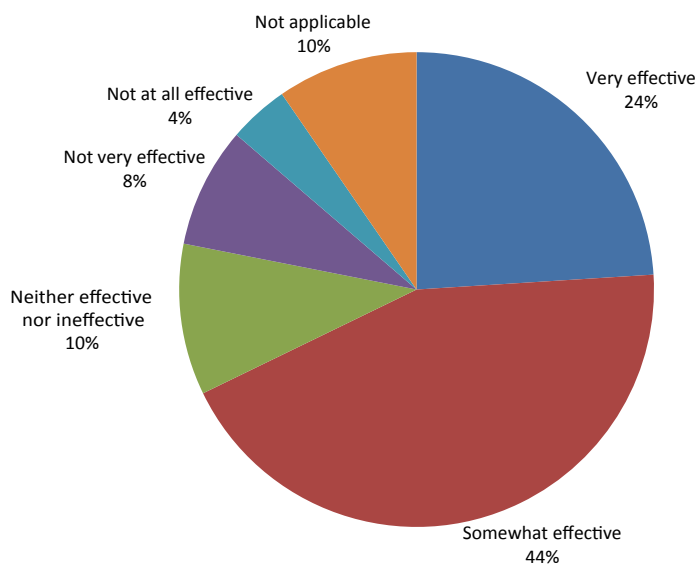


Figure 6

“Loyalty programs are not, and should not be, about the card, the reward or the incentive. They are, and should be, considered the entirety of the process, technologies, interactions and insight that can be gleaned along the path of engaging with a consumer throughout the lifecycle of their relationship with that brand. Loyalty is no longer about the program, but should be focused on behavior. Loyalty is a big picture idea; it is the destination. Programs and brands that focus on loyalty as a way to create ‘sustainable behavioral change’ in their brand advocates are those that will drive the financially imperative objectives needed for ‘loyalty program’ success.”

Mark Johnson
President and CEO, Loyalty 360

² *The Billion Member March: The 2011 COLLOQUY Loyalty Census: Growth and Trends in Loyalty Program Membership and Activity.*

³ *Consumer Attitudes Toward Loyalty Programs Deteriorate*, Forrester Research, January 2012.

⁴ *Leaders in Loyalty: Feeling the Love from Loyalty Clubs*, CMO Council, 2010.

The Devil's in the Data

Even with the treasure trove of customer information stemming from most loyalty programs, businesses have by and large failed to maximize the use of their customer intelligence. A recent report by Forrester confirms that businesses struggle with the overall issue of customer data complexity and quality in relation to their loyalty programs.⁵ Our survey finds that loyalty data is not integrated to any great degree with other customer data (only 36% of respondents reported high or moderate levels of integration). Further, even fewer businesses (30%) report moderate to high use of their overall customer data to inform their loyalty campaigns.

This suggests that many loyalty programs are, quite literally, detached from the overall customer experience and lifecycle. Without a holistic view of the customer to guide the loyalty program development and execution, it's easy to see why so many programs are marginally effective. It also lends insight to why many loyalty program members don't feel that they are getting much value from their memberships.

But achieving that holistic view of the customer is a formidable challenge. While the era of big data has given us the opportunity to collect and store massive amounts of information about our customers, harnessing that information across the entire organization is difficult. And many organizations aren't there yet. They lack the tools, technology and infrastructure necessary for an effective customer information strategy.

Measure for Measure

With so much at stake, measurement of loyalty and retention program effectiveness is essential. Yet Forrester reports that only six in 10 organizations have a *defined process and metrics* for measuring loyalty program performance.⁶

Among our survey respondents, there is no one single measurement; many businesses look at a number of metrics. Our study participants report that the primary KPIs for their programs are attrition/retention rates (63%), revenue targets (57%) and customer satisfaction (55%). Of particular interest is the focus on attrition and retention rates; these KPIs seem to be somewhat misaligned with the primary objectives of the loyalty program we discussed earlier: 1) get customers to spend more (47%), 2) improve churn (19%) and 3) develop customers into brand evangelists (16%).

The mechanisms to measure the KPIs revolve around retention monitoring (59%), surveys of loyalty customers (51%) and customer analytics on loyalty customers (51%). Interestingly, 8% of our respondents do not measure their loyalty and retention efforts at all.

⁵ *Benchmarking Customer Loyalty Efforts*, Forrester Research, February 2012.

⁶ *Ibid.*

What metrics are you using to measure success of your retention programs?

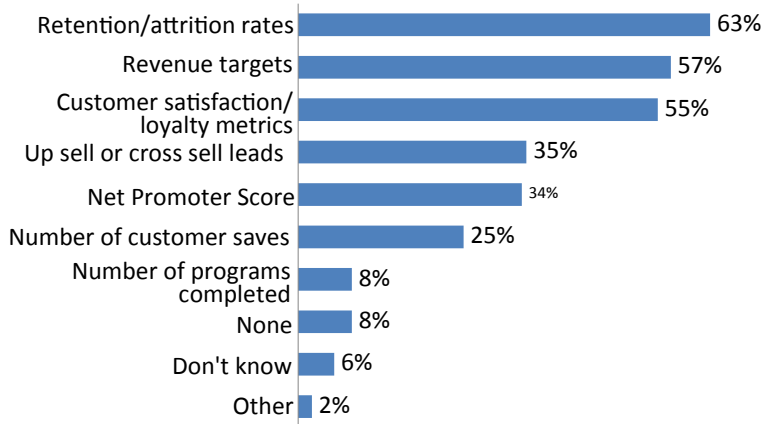


Figure 7

How are you currently measuring the effectiveness of your loyalty or retention programs?

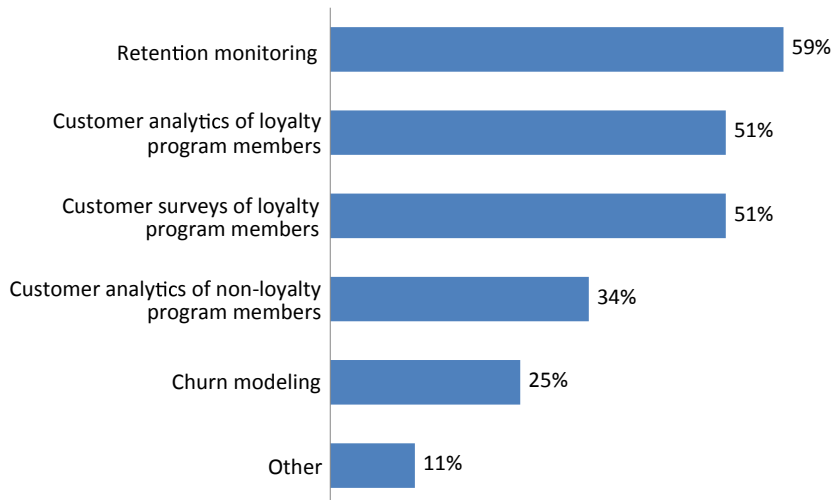


Figure 8

Down to Brass Tacks

While customer loyalty and retention are not new, there is certainly an increased focus on driving effective strategy around them. Traditional means of creating loyalty and keeping customers are gleaning diminishing returns. Customers are becoming desensitized to loyalty programs and are more willing to switch for savings. Businesses must be innovative in delivering unique value to their current customers to protect their brand loyalty and grow their revenue stream. The concept of customers as brand evangelists is more important than ever.

This research points to a number of key elements that differentiate successful loyalty and retention programs from others:

A dedicated customer loyalty and retention function

Businesses that have formalized their loyalty and retention programs in a specific function are more likely to have successful programs.

Integration of customer data

Making better use of the customer data derived from loyalty programs and using customer analytics to form the basis of loyalty programs yields higher rewards.

Management of the customer lifecycle

Businesses that have defined the customer lifecycle and align their loyalty and retention efforts accordingly have more success.

Allocation of budget

Organizations that make a strong financial commitment to plan and execute loyalty and retention programs reap more benefits.

Gaining momentum

Effective loyalty and retention programs take time to provide return on investment. Businesses with a more mature program tend to be more effective.

“As suggested, many organizations have made the mistake of focusing primarily on revenue creation in their customer loyalty programs. We have built our loyalty programs around creating additional value for our customers, which has led to increased revenue. It is a slight shift in focus, but a critical one in our success.”

Stacy Hobson
Director of Customer Loyalty, SAS

Recommendations

Take a fresh look at your customer loyalty and retention strategy

With the decline in customers' perceived value of loyalty programs and the new customer sovereignty, make sure your strategy is relevant and meaningful. Differentiate your program by identifying and connecting with the unique characteristics of your customer base.

Align loyalty and retention programs with marketing strategy

If marketing is doing its job by effectively segmenting and targeting to attract the right customers for your business, that makes the job of loyalty and retention that much easier.

Build brand evangelists, not bargain shoppers

If a loyalty program centers on offering customers special deals, it trains them to wait for the discount. Companies need to shift their loyalty focus to deepening the relationship with the customer and building evangelists. Loyal customers are less price-sensitive and more resistant to competitor overtures. They are also a huge marketing asset.

Release the hostages

Many companies view customer defection as a bad thing. They will take drastic measures to keep the relationship together and, in effect, turn some customers into hostages. These reluctant customers are often expensive to keep. Sometimes it's just not a good match. Know when to let go.

Connect the dots and the data

All of the recommendations above require a thorough understanding of the customer. Information about customers is not hard to come by, but it is often difficult to assimilate and analyze. Establish a clear customer information strategy and invest in the tools and talent necessary to execute it.

About SAS

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About Loyalty 360

Loyalty 360 is an unbiased, market driven, voice of the customer focused clearinghouse and think-tank that is committed to bringing loyalty to the forefront as a critical marketing strategy. A trusted source for cutting-edge research, best practices, and networking opportunities, Loyalty 360 gives members the expert insights and guidance they need to better understand loyalty and develop programs that effectively engage their customers and employees and build stronger relationships with them. Visit us online at loyalty360.org



SAS Institute Inc. World Headquarters +1 919 677 8000

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